Dairy Sector Growth in Uganda since the 1990s

Africa Growth Initiative at BROOKINGS

FACT SHEET NO. 2

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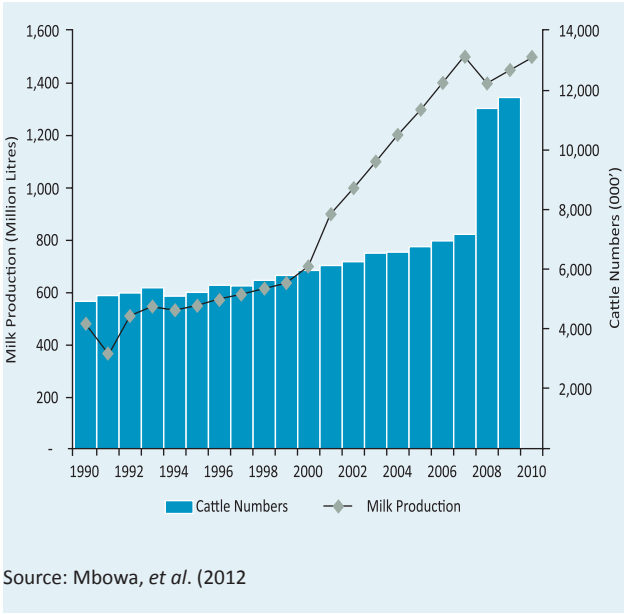
The Dairy sector in Uganda has responded positively to agricultural sector liberalisation policies that took effect in the 1990s. Total national milk production grew from 460 million litres in 1990 to 1.6 billion litres in 2011, with per capita milk consumption growing from 16 litres in 1986 to 58 litres by 2010. A variety of dairy products that were previously imported are now being produced locally in the country. Driven largely by dairy, the livestock sector has maintained positive growth rates averaging 3 percent per annum compared to the declining (and often negative) growth rates registered in the food and cash crop sub sectors. Milk production increased primarily due to:

- Growth in cattle population (see Figure 1).
- Adoption of higher milk yielding cattle (see Table 1), and changing husbandry practices.
- Growing number of Households taking on dairy Farming (see Table 2).

Figure 1: Trends in Milk Production and Cattle Numbers



Source: Mbowa, *et al*. (2012

Table 1: Dairy Cattle Numbers ('000) by Breed and Region between 2005 and 2009

	2005/06				2009/10			
	Exotic/Cross		Indigenous		Exotic/Cross		Indigenous	
	Num-bers	%	Num-bers	%	Numbers	%	Numbers	%
Central	115	5	2,342	95	408	11	3,150	89
Eastern	82	5	1,412	95	252	18	1,180	82
Northern	48	3	1,428	97	3	0	955	100
Western	900	35	1,684	65	1,019	46	1,215	54
Uganda	1,145	14	6,866	86	1,682	21	6,500	79

Source: Calculations based on the UNPS 2005/06 and 2009/10.

Figure 2: Changing herd composition from local through adoption of fewer cross breeds in Western Uganda

Table 2: Number of household involved in Dairy Farming, %

	2005/06		2009/10	
Region	Dairying	Percentage	Dairying	Percentage
	HH	%	HH	%
Central	157,273	15.5	163,680	14.3
Eastern	192,814	17.5	227,036	20.7
Northern	85,961	9.9	121,941	13.1
Western	146,294	12.5	186,417	14.9
Uganda	582,342	14.0	699,074	15.8

Source: Calculations based on the 2005/06 UNHS, & 2009/10 UNPS

Increasing Production of Marketable Surplus Milk

By 2009/10 milk output from dairying households rose to 1 billion litres (Table 3) - and 524 million litres (about 52%) of the raw milk produced is marketed to off-farm consumers. The bulk (56 percent) of traded surplus milk comes from the Western region. The Central region provides the biggest (over 60 percent) of the milk market (Table 3).

Table 3: Regional Distribution of Milk Output, Surpluses, and Consumption (Million litres)

	Production		Surplus Marketed		Consumption	
Regions	*(Million litres)*	(%)	(Million litres)	(%)	*(Million litres)*	(%)
Central	302	29.9	139	26.5	430	63.9
Eastern	159	15.8	62	11.8	82	12.2
Northern	69	6.8	32	6.1	34	5.1
Western	480	47.6	292	55.7	128	19.0
Uganda	1,009	100.0	524	100.0	673	100.0

Source: Authors' calculations based on UNPS 2009/10.

While milk production remains concentrated in the Western milk shed, there is evidence of dairy activities spreading to other non-traditional milk producing regions of the country especially in the Central and Eastern regions of Uganda. Development of the value chain in the dairy sector has led to employment creation and income generation not only for about 700,000 dairy farming households (Table 2), but also for farm input dealers, dairy equipment dealers, dairy ingredients dealers, raw milk traders, milk transporters, mini-dairies, large scale milk processors, and distributors.

Figure 3: Milk Collection (Bulking and Transportation)

Enablers

The raw milk market has gradually undergone transformation from a government controlled marketing system to a more competitive sector in which private traders and processors play an increasingly active role. Private sector businesses, cooperative societies and non-government organisation (NGOs) such as Send a Cow, Land O'Lakes and Heifer international have become active players in the supply of essential inputs, crossbreeding and veterinary extension services. These players have complemented the limited role of government in those activities and ushered in new services. Farmer-to-farmer consultations have enabled the flow of market information on essential inputs and product markets as well as adoption of technology. In addition to expanding milk processing plants, private milk processing companies that entered the industry after the reforms have invested in the milk collection and marketing infrastructure.

Remaining Challenges

Despite the progress, a number of challenges remain.

1. Regional milk markets are not well integrated. Consequently, farm gate milk prices are perpetually low in the milk surplus Western region and high in the milk deficit regions (Eastern and Northern).

2. The near-monopolistic structure of the milk collection and processing market – where Sameer Agricultural Livestock Limited (SALL) inherited existing networks created by the government owned Dairy Corporation (DC) after privatization and as a result controls 78 percent of the formal raw milk marketing channel – leaves major processing companies such as GBK and SHUMUK with little incentive to invest in infrastructure.

3. SALL sets periodic raw milk prices and milk purchase quotas during peak season, a practice widely construed as monopoly tendencies by dairy farmers in the Western region. The low farm gate price offered to farmers especially during the peak season in relation to the increasing prices of imported inputs (e.g. veterinary drugs and acaricides) is a big source of instability in the milk surplus south-Western region, and dairy farmers in this part of the country are switching enterprises from dairying to crop farming. For instance dairy farmers in Bushenyi district (south Western region) have diversified to tea and banana farming.

Figure 4: Dairy Products from Mini-dairies in Eastern Uganda

Recommendations

- Public investment in infrastructure development like roads and electricity is necessary to support integration of the raw milk market between regions. This will make the milk market more efficient.

- The Dairy Development authority (DDA) needs to review the existing excesses in the formal marketing of raw milk to check SALLs extreme marketing behaviour. This would involve allowing strong farmers' cooperative unions to fully participate in management of milk collection infrastructure, leased to SALL by government.

- Promotion of public private partnerships (PPP) arrangements to expand the milk collection network where other processors have failed to invest.

- Mini-dairies organised and managed through farmer groups (cooperatives) as exemplified in the Northern and Eastern regions can augment the level of participation of dairy farmers deeper in the value chain. This model should be encouraged to further utilize processing capacity.

- Strengthening farmer groups as institutions central in the dissemination of information at farm level, and the revival of cooperatives by Government as highlighted in the agricultural DSIP.

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